

ORIGINAL

OPEN MEETING

MEMORANDUM



TO: THE COMMISSION

FROM: Utilities Division

DATE: March 26, 2013

RE: ARIZONA ELECTRIC POWER COOPERATIVE, INC.-REQUEST FOR REVIEW OF PPFAC EFFICACY AND APPROVAL OF TEMPORARY PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RIDER NO. 3 (DOCKET NO. E-01773A-09-0472)

Introduction

On March 1, 2013, Arizona Electric Power Cooperative, Inc. ("AEPCO") filed with the Commission a request for review and authorization to correct a substantial problem which has arisen with the recovery of one of the Purchased Power and Fuel Adjustment Clause ("PPFAC") bank balances; specifically, the bank balance associated with AEPCO's sale of "Other Resources" power to its members.

AEPCO currently has two PPFAC mechanisms that allow AEPCO to recover or refund changes in the fuel and purchased power cost between rate cases. One is titled Base Resources, which includes AEPCO's Steam Turbine Units 2 and 3, power purchased under contract from the Western Area Power Administration and economy purchases displacing base resources generation. The second is titled Other Resources and allows AEPCO to recover costs for all other generation and purchased power.

AEPCO is a non-profit electric generation cooperative that serves the power needs of its three collective all-requirements ("CARMs") and three partial-requirements ("PRMs") Class A member distribution cooperatives. Those member distribution cooperatives, in turn, use the power supplied by AEPCO to meet the electricity needs of approximately 144,000 residential, commercial, agricultural and industrial retail customers who are located primarily in Arizona's rural areas. The three CARMs are Anza Electric Cooperative ("Anza"), Duncan Valley Electric Cooperative ("Duncan Valley"), and Graham County Electric Cooperative ("Graham County"). The three PRMs are Trico Electric Cooperative ("Trico"), Sulphur Springs Valley Electric Cooperative ("SSVEC"), and Mohave Electric Cooperative ("Mohave").

Under the current structure, over- and under-collected bank balances for each member's Other Resources usage are refunded or recovered through a per kWh charge on future Other Resource power purchases by the member. However, because sales of power which comprise the Other Resources category are neither robust nor consistent and predictable, the adjustor rates can and do shift dramatically every six months. For example, under the current standard April 1 adjustor rate reset, Mohave Electric Cooperative, Inc.'s Other Resources adjustor rate will swing

from a negative \$1.92/kWh to a positive \$1.60/kWh. This abrupt, wild movement in rates sends very inaccurate price signals to the members about the true cost of AEPCO's Other Resources power and, therefore, inhibits their fullest and most efficient use.

Another problem resulting from this PPFAC issue is the probability of a substantial stranded bank balance in the near future. Trico Electric Cooperative currently has an under-collected Other Resources bank balance of approximately \$2.5 million. However, because Trico is in the process of reducing and, ultimately, eliminating use of AEPCO's Other Resources, AEPCO will not, in all likelihood, be able to collect this under-collection from Trico using the current PPFAC "per kWh" method.

To address these issues, AEPCO requests authorization to use a temporary tariff rider to (1) remove the bank balances from the Other Resources adjustor rates and instead (2) recover or refund each member's balance over a six-month period through a monthly charge or credit. This six-month return/recovery period is consistent with the stated intent of the PPFAC. Removing the bank balance recovery or refund from the Other Resources adjustor rate will minimize the erratic swings in adjustor rates; provide a more accurate power cost price signal and, therefore, encourage the more efficient use of Other Resources; and provide a method for timely recovery of Trico's under-collected bank balance.

Background

In Decision No. 72055, the Commission authorized continuation of the PPFAC and, as well, continued AEPCO's ability to request modifications to the PPFAC should problems with cost recovery develop:

- [AEPCO] may file a request that the Commission review the efficacy of the [PPFAC] with Arizona Electric Cooperative Inc.'s submission of any semi-annual report required by the tariff and this Decision. (The Rate Case Decision, p. 17, Third Full Ordering Paragraph.)

When the Commission first approved the "efficacy" process in AEPCO's 2005 rate order, it was concerned that PPFAC problems might arise which, for example, would interfere with the timely collection or refund of under- or over-collected fuel and purchased power bank balances. The efficacy process was authorized to allow the Commission to respond timely. Consistent with that authorization, this filing requests a review and authorization to correct a substantial problem which has arisen with the recovery of one of the PPFAC bank balances; specifically, the bank balance associated with AEPCO's sale of Other Resources power to its members.

Staff Analysis

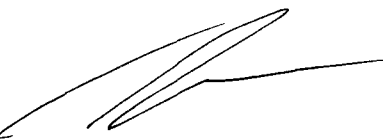
Staff has reviewed AEPCO's monthly bank balances for Other Resources. AEPCO currently has under-collected balances with five members and an over-collected balance with one. AEPCO is concerned that these bank balances may become stranded, since several Class A partial requirements members are phasing out their use of Other Resources. The bank balances as of December 31, 2012, are listed below.

Other Resources Bank Balance	
<i>Partial Requirements:</i>	
Mohave Electric	\$ 86,864.77
Sulphur Springs Valley Electric	\$ -43,887.61
Trico Electric	\$ 2,574,500.45
<i>Full Requirements:</i>	
Anza Electric	\$ 91,667.56
Duncan Valley Electric	\$ 59,138.23
Graham County Electric	\$ 352,309.17

AEPCO is asking to collect/return these bank balances over the next six months using a temporary rate rider. The Temporary Purchased Power and Fuel Adjustment Clause Rider No. 3 will remove the Other Resources bank balances as of December 31, 2012, from the kWh charge. The monthly bill will include a charge or credit sufficient to recover or refund the under or over-collection of each Class A member's Other Resources bank balance. The monthly charges/credits are shown below.

Charges/(Credits)	
<i>Partial Requirements:</i>	
Mohave Electric	\$ 14,477.50
Sulphur Springs Valley Electric	\$ (7,314.60)
Trico Electric	\$ 429,083.33
<i>Full Requirements:</i>	
Anza Electric	\$ 15,277.93
Duncan Valley Electric	\$ 9,856.37
Graham County Electric	\$ 58,718.20

Between March 13 and March 20, 2013, AEPCO received letters of support for its Efficacy Filing from each of its Class A member distribution cooperatives: Sulphur Springs Valley Electric Cooperative, Mohave Electric Cooperative, Duncan Valley Electric Cooperative, Anza Electric Cooperative, Trico Electric Cooperative and Graham County Electric Cooperative. On March 21, 2013, AEPCO docketed these letters in support of its filing.



Steven M. Olea
Director
Utilities Division

SMO:PML:sms\MAS

ORIGINATOR: Patrick M. Lowe

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 BOB STUMP

Chairman

3 GARY PIERCE

Commissioner

4 BRENDA BURNS

Commissioner

5 BOB BURNS

Commissioner

6 SUSAN BITTER SMITH

Commissioner

7
8 IN THE MATTER OF ARIZONA ELECTRIC)
9 POWER COOPERATIVE, INC. REQUEST
10 FOR REVIEW OF PPFAC EFFICACY AND
11 APPROVAL OF TEMPORARY
12 PURCHASED POWER AND FUEL
13 ADJUSTMENT CLAUSE RIDER NO. 3

DOCKET NO. E-01773A-09-0472

DECISION NO. _____

ORDER

14 Open Meeting
15 April 9th and 10th, 2013
16 Phoenix, Arizona

16 BY THE COMMISSION:

17 **FINDINGS OF FACT**

18 1. Arizona Electric Power Cooperative, Inc. ("AEPCO") is certificated to provide
19 electric service as a public service corporation in the state of Arizona.

20 **Introduction**

21 2. On March 1, 2013, AEPCO filed with the Commission a request for review and
22 authorization to correct a substantial problem which has arisen with the recovery of one of the
23 Purchased Power and Fuel Adjustment Clause ("PPFAC") bank balances; specifically, the bank
24 balance associated with AEPCO's sale of "Other Resources" power to its members.

25 3. AEPCO currently has two PPFAC mechanisms that allow AEPCO to recover or
26 refund changes in fuel and purchased power between rate cases. One is titled Base Resources,
27 which includes AEPCO's Steam Turbine Units 2 and 3, power purchased under contract from the
28 Western Area Power Administration and economy purchases displacing base resources generation.

1 The second is titled Other Resources and allows AEPCO to recover costs for all other generation
2 and purchased power.

3 4. AEPCO is a non-profit electric generation cooperative that serves the power needs
4 if its three collective all-requirements ("CARMs") and three partial-requirements ("PRMs") Class
5 A member distribution cooperatives. Those member distribution cooperatives, in turn, use the
6 power supplied by AEPCO to meet the electricity needs of approximately 144,000 residential,
7 commercial, agricultural and industrial retail customers who are located primarily in Arizona's
8 rural areas. The three CARMs are Anza Electric Cooperative ("Anza"), Duncan Valley Electric
9 Cooperative ("Duncan Valley"), and Graham County Electric Cooperative ("Graham County").
10 The three PRMs are Trico Electric Cooperative ("Trico"), Sulphur Springs Valley Electric
11 Cooperative ("SSVEC"), and Mohave Electric Cooperative ("Mohave").

12 5. Under the current structure, over- and under-collected bank balances for each
13 member's Other Resources usage are refunded or recovered through a per kWh charge on future
14 Other Resource power purchases by the member. However, because sales of power which
15 comprise the Other Resources category are neither robust nor consistent and predictable, the
16 adjustor rates can and do shift dramatically every six months. For example, under the current
17 standard April 1 adjustor rate reset, Mohave Electric Cooperative, Inc.'s Other Resources adjustor
18 rate will swing from a negative \$1.92/kWh to a positive \$1.60/kWh. This abrupt, wild movement
19 in rates sends very inaccurate price signals to the members about the true cost of AEPCO's Other
20 Resources power and, therefore, inhibits their fullest and most efficient use.

21 6. Another problem resulting from this PPFAC issue is the probability of a substantial
22 stranded bank balance in the near future. Trico Electric Cooperative currently has an under-
23 collected Other Resources bank balance of approximately \$2.5 million. However, because Trico is
24 in the process of reducing and, ultimately, eliminating use of AEPCO's Other Resources, AEPCO
25 will not, in all likelihood, be able to collect this under-collection from Trico using the current
26 PPFAC "per kWh" method.

27 7. To address these issues, AEPCO requests authorization to use a temporary tariff
28 rider to (1) remove the bank balances from the Other Resources adjustor rates and instead (2)

1 recover or refund each member's balance over a six-month period through a monthly charge or
2 credit. This six-month return/recovery period is consistent with the stated intent of the PPFAC.
3 Removing the bank balance recovery or refund from the Other Resources adjustor rate will
4 minimize the erratic swings in adjustor rates; provide a more accurate power cost price signal and,
5 therefore, encourage the more efficient use of Other Resources; and provide a method for timely
6 recovery of Trico's under-collected bank balance.

7 **Background**

8 8. In Decision No. 72055, the Commission authorized continuation of the Purchased
9 Power and Fuel Adjustment Clause ("PPFAC") and, as well, continued AEPCO's ability to request
10 modifications to the PPFAC should problems with cost recovery develop:

- 11 • [AEPCO] may file a request that the Commission review the efficacy of the
12 [PPFAC] with Arizona Electric Cooperative Inc.'s submission of any semi-annual
13 report required by the tariff and this Decision. (The Rate Case Decision, p. 17,
14 Third Full Ordering Paragraph.)

15 9. When the Commission first approved the "efficacy" process in AEPCO's 2005 rate
16 order, it was concerned that PPFAC problems might arise which, for example, would interfere
17 with the timely collection or refund of under- or over-collected fuel and purchased power bank
18 balances. The efficacy process was authorized to allow the Commission to respond timely.
19 Consistent with that authorization, this filing requests a review and authorization to correct a
20 substantial problem which has arisen with the recovery of one of the PPFAC bank balances;
21 specifically, the bank balance associated with AEPCO's sale of Other Resources power to its
22 members.

23 **Staff Analysis**

24 10. Staff has reviewed AEPCO's monthly bank balances for Other Resources. AEPCO
25 currently has under-collected balances with five members and an over-collected balance with one.
26 AEPCO is concerned that these bank balances may become stranded, since several class A partial
27 requirements members are phasing out their use of Other Resources. The bank balances as of
28 December 31, 2012, are listed below.

Other Resources Bank Balance	
<i>Partial Requirements:</i>	
Mohave Electric	\$ 86,864.77
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Trico Electric	\$ 2,574,500.45
<i>Full Requirements:</i>	
Anza Electric	\$ 91,667.56
Duncan Valley Electric	\$ 59,138.23
Graham County Electric	\$ 352,309.17

11. AEPCO is asking to collect/return these bank balances over the next six months using a temporary rate rider. The Temporary Purchased Power and Fuel Adjustment Clause Rider No. 3 will remove the Other Resources bank balances as of December 31, 2012, from the kWh charge. The monthly bill will include a charge or credit sufficient to recover or refund the under or over-collection of each Class A member's Other Resources bank balance. The monthly charges/credits are shown below.

Charges/(Credits)	
<i>Partial Requirements:</i>	
Mohave Electric	\$ 14,477.50
Sulphur Springs Valley Electric	\$ (7,314.60)
Trico Electric	\$ 429,083.33
<i>Full Requirements:</i>	
Anza Electric	\$ 15,277.93
Duncan Valley Electric	\$ 9,856.37
Graham County Electric	\$ 58,718.20

12. Between March 13 and March 20, 2013, AEPCO received letters of support for its Efficacy Filing from each of its Class A member distribution cooperatives: Sulphur Springs Valley Electric Cooperative, Mohave Electric Cooperative, Duncan Valley Electric Cooperative, Anza Electric Cooperative, Trico Electric Cooperative and Graham County Electric Cooperative. On March 21, 2013, AEPCO docketed these letters in support of its filing.

13. Staff has recommended that the Temporary Purchased Power and Fuel Adjustment Clause Rider No. 3 be approved. Approval will establish a simple and timely process for collecting/refunding the Other Resources bank balance.

...

CONCLUSIONS OF LAW

1
2 1. Arizona Electric Power Cooperative, Inc. is an Arizona public service corporation
3 within the meaning of Article XV, Section 2, of the Arizona Constitution.

4 2. The Commission has jurisdiction over Arizona Electric Power Cooperative, Inc. and
5 over the subject matter of the application.

6 3. The Commission, having reviewed the application and Staff's memorandum dated
7 March 26, 2013, concludes that it is in the public interest to approve the Temporary Purchased
8 Power and Fuel Adjustment Clause Rider No. 3.

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ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc.'s Temporary Purchased Power and Fuel Adjustment Clause Rider No. 3 be and hereby is approved, effective April 1, 2013.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. file its Temporary Purchased Power and Fuel Adjustment Clause Rider No. 3 tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:PML:sms/MAS

Decision No. _____

1 SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.
2 DOCKET NO. E-01773A-09-0472

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